32

No. 04-607

Supreme Court, U.S.
FILED
DEC 23 2005
OFFICE OF THE CLERK

In The Supreme Court of the United States

LABORATORY CORPORATION OF AMERICA HOLDINGS (D/B/A LABCORP),

Petitioner,

v.

METABOLITE LABORATORIES, INC., ET AL.,

Respondents.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF FOR *AMICUS CURIAE* COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONER

BRIAN KAHIN
MATTHEW SCHRUERS
COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION
666 Eleventh Street, NW
Washington, DC 20001
(202) 783-0070

JONATHAN BAND
Counsel of Record
JONATHAN BAND PLLC
21 Dupont Circle NW
8th Floor
Washington, DC 20036
(202) 296-5675
jband@policybandwidth.com

Counsel for Amicus Curiae

December 23, 2005

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
OR CALL COLLECT (402) 342-2831

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES iii

INTEREST OF *AMICUS* 1

SUMMARY OF ARGUMENT 2

ARGUMENT 4

I. THE FEDERAL CIRCUIT'S EXPANSION OF PATENTABLE SUBJECT MATTER DISREGARDS THIS COURT'S PRECEDENTS AND LACKS STATUTORY BASIS 4

A. Vague Legislative History Provides the Sole Justification for the Federal Circuit's Expansion of Section 101's Limits on Patentable Subject Matter 6

1. State Street's *Mantra Derives Solely From Committee Reports* 7

2. Chakrabarty *Does Not Support* State Street's *Analysis* 9

3. *The Patent Act's Legislative History Fails to Support* State Street 10

B. "Useful, Concrete, and Tangible" Lacks Statutory Basis and Has Supplanted the "Transformation" Test 12

II. REASSERTION OF THE *COCHRANE* STANDARD IS NECESSARY AS EXPANSION OF PATENTABLE SUBJECT MATTER HAS PROVED UNWORKABLE 13

A. Expanding the Scope of Patentability Has Encouraged Opportunism Without Encouraging Innovation 13

TABLE OF CONTENTS – Continued

Page

B. Governments Worldwide Have Struggled to Address the Expanding Scope of Patentability 17

CONCLUSION 20

TABLE OF AUTHORITIES

Page

CASES

AT&T Corp. v. Excel Communications, Inc., 172 F.3d 1352 (Fed. Cir. 1999) 5

Cochrane v. Deener, 94 U.S. 780 (1876) ..... *passim*

Diamond v. Chakrabarty, 447 U.S. 303 (1980) 8, 9

Diamond v. Diehr, 450 U.S. 175 (1981) ..... *passim*

Gottschalk v. Benson, 409 U.S. 63 (1972) 5, 6, 13, 14

Hotel Security Checking Co. v. Lorraine Co., 160 F. 467 (2d Cir. 1908) 9, 10

In re Alappat, 33 F.3d 1526 (Fed. Cir. 1994) 5, 6, 13

In re Bergy, 596 F.2d 952 (C.C.P.A. 1979) 7, 8

In re Musgrave, 431 F.2d 882 (C.C.P.A. 1970) 5, 9

In re Patton, 127 F.2d 324 (C.C.P.A. 1942) 10

In re Tarczy-Hornoch, 397 F.2d 856 (C.C.P.A. 1968) 5

Loew's Drive-In Theatres v. Park-In Theatres, 174 F.2d 547 (1st Cir. 1949) 9, 10

Parker v. Flook, 437 U.S. 584 (1978) 5, 6

Reves v. Ernst & Young, 507 U.S. 170 (1993) 10

State Street Bank & Trust Co. v. Signal Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998) ..... *passim*

CONSTITUTION AND STATUTES

U.S. Const. art. 1, § 8, cl. 8 4

Patent Act of 1952, ch. 950, § 1, 66 Stat. 792, codified as amended at 35 U.S.C. § 1 *et seq.*:

35 U.S.C. § 101 ..... 4, 7, 10, 12

TABLE OF AUTHORITIES – Continued

Page

LEGISLATIVE HISTORY

98 Cong. Rec. 9323 (1952) 11

H. R. Rep. No. 1923, 82d Cong., 2d Sess. (1952) 7

S. Rep. No. 1979, 82d Cong., 2d Sess. (1952) 7

MISCELLANEOUS

AIPLA, Report of the Economic Survey 1999, 2001, and 2003 15

Consultation Conclusion of the Patent Office of the United Kingdom, available at http://www.patent.gov.uk/about/consultations/conclusions.htm 20

Consultation Documents of the European Commission, available at http://europa.eu.int/comm/internal_market/en/indprop/comp/softpatanalyse.htm 20

Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) 17

IBM response to Request for Comments on the International Effort to Harmonize the Substantive Requirements of Patent Law, 66 Fed. Reg. 15,409 (Mar. 19, 2001) *available at* http://www.uspto.gov/web/offices/dcom/olia/harmonization/TAB42.pdf 16

James Gleick, *Patently Absurd*, N.Y. Times Mag., Mar. 12, 2000 16

A. Samuel Oddi, *Assault on the Citadel: Judge Rich and Computer-Related Inventions*, 39 Houston L. Rev. 1034 (2002) 8

Order, 125 S. Ct. 1413 (Feb. 28, 2005) 2

TABLE OF AUTHORITIES – Continued

Page

Steven Pizzo, *Who's Really Being Protected?* O'Reilly Network, May 24, 2000, at 3, *available at* <http://www.oreillynet.com/pub/a/policy/2000/05/24/PizzoFiles.html> 15

Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* in *Patent Procurement and Exploitation* (BNA 1963) 7, 11

Giles S. Rich, *Principles of Patentability*, 28 Geo. Wash. L. Rev. 393 (1960) 12

David Streitfeld, *Note: This Headline is Patented*, L.A. Times, Feb. 7, 2003, at A1 14

U.S. Patent No. 5,794,207 (issued Aug. 11, 1998) 15

U.S. Patent No. 5,960,411 (issued Sept. 28, 1999) 16

U.S. Patent No. 6,329,919 (issued Dec. 11, 2001) 16

World Intell. Prop. Org., *Report of the Seventh Session of the Standing Committee on the Law of Patents* ¶¶ 159-173 (2002), available at http://www.wipo.org/scp/en/documents/session_7/pdf/scp7_8.pdf 20

BRIEF FOR *AMICUS CURIAE* COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONER

The Computer & Communications Industry Association (CCIA) submits this brief as *amicus curiae* and respectfully requests that the Federal Circuit be reversed. Petitioner and Respondents have consented to the filing of this brief, and the letters of consent are being filed herewith.

INTEREST OF *AMICUS*

The Computer & Communications Industry Association is a non-profit trade association dedicated to open markets, open systems, and open networks. CCIA members participate in many sectors of the computer, information technology, and telecommunications industries and range in size from small entrepreneurial firms to the largest in the industry.[1] CCIA members use the patent system regularly, and depend upon it to fulfill its constitutional purpose of promoting innovation. CCIA is increasingly concerned that the patent system has expanded without adequate accountability and oversight.[2]

CCIA supports the Petitioner's argument for reversal of the Federal Circuit. This brief addresses how the

[1] Counsel for a party did not author this brief in whole or in part. No person or entity other than CCIA, its members, or its counsel made a monetary contribution to the preparation or submission of this brief.

[2] CCIA is a trade association with a wide and diverse membership. It was unable to resolve the reservation of one of its members, Verizon Communications, prior to the filing of this brief. These views should therefore not be associated with Verizon.

Federal Circuit has inappropriately enlarged the scope of patentable subject matter, without foundation and in contradiction to this Court's precedent. The brief argues that to restore order this Court must reaffirm the principles expressed in *Cochrane v. Deener*, 94 U.S. 780 (1876), and *Diamond v. Diehr*, 450 U.S. 175 (1981): that in order to be patentable, a process must result in a physical transformation.

Neither CCIA nor its members have a direct financial interest in the outcome of this litigation. However, allowing the Federal Circuit's interpretation of the scope of patentable subject matter to stand would subject CCIA members to increased patent litigation, burden information technology and software, and undermine the legitimacy of the patent system as a whole.

SUMMARY OF THE ARGUMENT

As this Court's February 28 order to the Solicitor General suggests, the Federal Circuit's interpretation of the scope of patentability as formulated in *State Street Bank & Trust Co. v. Signal Financial Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999), has ventured far beyond this Court's precedents, including *Diamond v. Diehr*. *See* Feb. 28 Order, 125 S. Ct. 1413.[3] This brief describes the problems created by a lack of meaningful limits on patentable subject matter, demonstrated most clearly by the problem of so-called "business method" patents.

[3] This inquiry is fairly included within the question presented, a fact noted by Petitioner in its supplemental brief. Suppl. Pet. Br. at 5.

This case squarely presents the central issue of patent policy in today's knowledge-driven economy: drawing the line between abstract idea and patentable process. With the explosive success of the Internet and the World Wide Web enabling a wealth of new business models, this question becomes as critical and challenging as delineating expression from idea in copyright. It is as important for software and services as it is for biotechnology and medical practice; this question must be answered for all innovation environments.

The answer to this question must be unequivocal: the Court must reaffirm its definition of "process," first articulated in *Cochrane v. Deener*: "A process is a mode of treatment of certain materials to produce a given result. It is an act, or a series of acts, performed upon the subject-matter to be transformed and reduced to a different state or thing. If new and useful, it is just as patentable as is a piece of machinery." 94 U.S. 780, 788 (1876). This definition was reaffirmed by the choice of "process" as one of the categories of patentable subject in the Patent Act of 1952 and by the Court in *Diamond v. Diehr*, 450 U.S. 175, 182-84 (1981).

This brief argues that the Federal Circuit's expansion of patentable subject matter disregards this Court's precedents and lacks statutory basis. Rather than relying on statute or this Court's opinions, *State Street* invokes vague legislative history in the form of committee reports to justify expanding limits on patentable subject matter in Section 101 of the Patent Act. Even then, the legislative history proves to be too thin a reed to justify the conclusions reached in *State Street*. Having thus justified its expansion of patentable subject matter, the Federal Circuit crafted a new test that lacks statutory basis and has effectively supplanted this Court's standard first

articulated in *Cochrane v. Deener*. This judicial enlargement of the subject matter limitations of Section 101 has radically broadened the Patent Act into a general law of novelty, distorting the Act's statutory foundation and in some cases failing its constitutional purpose. U.S. Const. art. 1, § 8, cl. 8.

This brief concludes that reassertion of the *Cochrane* standard is necessary to remedy the dysfunctional system that the Federal Circuit has created: one which encourages opportunism while undermining innovation, leaving governments worldwide struggling with the results.

Correcting the Federal Circuit's misconstruction of Section 101 will contribute to the restoration of order and restraint in our troubled patent system. Accordingly, CCIA respectfully requests that the Court reverse the ruling below and meaningfully enforce limitations of the scope of patentable subject matter.[4]

ARGUMENT

I. THE FEDERAL CIRCUIT'S EXPANSION OF PATENTABLE SUBJECT MATTER DISREGARDS THIS COURT'S PRECEDENTS AND LACKS STATUTORY BASIS.

The question posed by the Court to the Solicitor General was whether the process claimed by respondent Metabolite is statutory subject matter under *Diamond v.*

[4] It is unquestionable that business methods, like the diagnostic correlation in this case, produce no transformation, and are therefore unpatentable. Thus, "line-drawing" with respect to the patentability of other subject matter, including software, is unnecessary.

Diehr. Writ large, this question highlights the problem created by the Federal Circuit's unsanctioned enlargement of the statutory scope of patentability. This case offers a vehicle for correcting that problem.

Diehr was the last of a well-known trio of cases, including *Gottschalk v. Benson*, 409 U.S. 63 (1972), and *Parker v. Flook*, 437 U.S. 584 (1978), in which the Court established the scope of patentable subject matter. In *Benson*, the court explained that "[p]henomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work." 409 U.S. at 67.

Since *Diehr*, the Supreme Court has not revisited the line between patentable processes and abstract ideas. Yet in the interim, the Court of Appeals for the Federal Circuit has aggressively expanded the scope of the patent system to cover areas of knowledge intended neither by this Court nor by Congress. *See, e.g., In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994); *State Street Bank & Trust Co. v. Signal Financial Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999); *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999). Despite the lack of evidence that Congress intended this enlargement – and in the face of evidence to the contrary – the Federal Circuit's expansionism swept away preexisting jurisprudential limitations. These limitations, including mental steps, function of a machine, and methods of doing business, had helped innovators navigate the line between patentable and unpatentable. *See, e.g., In re Musgrave*, 431 F.2d 882 (C.C.P.A. 1970); *In re Tarczy-Hornoch*, 397 F.2d 856, 866-67 (C.C.P.A. 1968); and *State Street Bank & Trust Co., supra*.

State Street both sidestepped this Court's holdings in *Benson*, *Flook*, and *Diehr*, and usurped the policymaking role of the Congress. It reversed hornbook law upon which businesses and lawyers relied. It ignored this Court's definition of process articulated first in *Cochrane v. Deener* and on which the decision in *Diehr* was predicated. *See* 450 U.S. at 183-84. Instead, *State Street* reread the 1952 Patent Act as overturning a longstanding judicial rule against patents for methods of doing business. It did not offer any direct evidence of such intent, because there is none. Rather, *State Street* claimed to have found intent by Congress to abandon traditional subject matter limitations in a formerly obscure clause of legislative history, the now infamous mantra, "anything under the sun that is made by man." In place of long-established standards, *State Street* plucked a new standard – a "useful, concrete and tangible result" – from a sentence that the Federal Circuit itself had written four years earlier. *See State Street*, 149 F.3d at 1373 (quoting *Alappat*, 33 F.3d at 1544).

A. Vague Legislative History Provides the Sole Justification for the Federal Circuit's Expansion of Section 101's Limits on Patentable Subject Matter.

Since the Patent Act was passed in 1952, the Federal Circuit (along with its predecessor, the Court of Customs and Patent Appeals) has radically expanded the scope of patentable subject matter by redrawing the line between patentable processes and abstract ideas. This expansion, most conspicuously manifest in the area of business method patents, has been justified by the judicial bootstrapping of a reference in a committee report in the

legislative history to "anything under the sun that is made by man."

1. State Street's *Mantra Derives Solely From Committee Reports*

The phrase "anything under the sun that is made by man" first appeared in House and Senate committee reports on the Patent Act, which were drafted by a Patent Office employee.[5] *See* S. Rep. No. 1979, 82d Cong., 2d Sess., at 5 (1952); H. R. Rep. No. 1923, 82d Cong., 2d Sess., at 6 (1952). The phrase is an offhanded dependent clause in a sentence that reads: "A person may have 'invented' a machine or a manufacture, which may include anything under the sun that is made by man, but it is not necessarily patentable under Section 101 unless the conditions of the title are fulfilled." The sentence as a whole is not directed at the scope of patentable subject matter, but rather at the requirements of patentability. In other words, the sentence states that even if a person invented a machine, it is only patentable if it meets all the other requirements of the Act. Moreover, the phrase "anything under the sun that is made by man" modifies the words "a machine or a manufacture," and thus does not refer to *processes*.

This phrase lay dormant for nearly thirty years, until Judge Giles Rich, one of the principal authors of the Act, quoted it in his three-stage formula for how to read the basic requirements of the Patent Act. *See In re Bergy*, 596

---

[5] *See* Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* reprinted in *Patent Procurement and Exploitation* 73 (BNA 1963).

F.2d 952, 987 (C.C.P.A. 1979); *see also* A. Samuel Oddi, *Assault on the Citadel: Judge Rich and Computer-Related Inventions*, 39 Houston L. Rev. 1034, 1074-76 (2002) (recounting history of phrase). This Court affirmed *Bergy* in *Diamond v. Chakrabarty*, with Justice Burger repeating in dicta the "anything under the sun" phrase devoid of its context. 447 U.S. 303, 309 & n.6 (1980).

The following year in *Diamond v. Diehr*, the Court again recited in dicta that "Congress intended statutory subject matter to 'include anything under the sun that is made by man.'" 450 U.S. 175, 182 (1981). *Diehr* uses the phrase, again out of context, to refer to a process rather than a machine or manufacture as the sentence requires. Most importantly, however, *Diehr* uses the phrase only to refer to traditionally patentable physical processes that, following *Cochrane v. Deener*, transform the state or nature of matter – in this case, the curing of rubber. The phrase does not, as is sometimes erroneously assumed, refer to the operation of a computer program.

Nonetheless, these dicta provided for a monumental expansion of patentable subject matter by the Federal Circuit in its controversial *State Street* decision. Judge Rich, now sitting on the Federal Circuit, seized on "anything under the sun that is made by man" out of context to strike down the longstanding rule against patents on business methods and read business methods into Section 101's explicit categories of "process, machine, manufacture or composition of matter." *State Street Bank & Trust Co. v. Signal Financial Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999).

2. Chakrabarty *Does Not Support* State Street's *Analysis*

State Street justifies this revisionism by citing Chief Justice Burger's recitation out of context of "anything under the sun that is made by man" when finding artificial life forms patentable in *Chakrabarty*, and by citing the phrase's subsequent use in *Diehr*, where it applies to a traditional process. *See State Street*, 149 F.3d at 1373. *Chakrabarty*, however, cannot support the Federal Circuit's revisionist reading of Section 101; artificial life forms may be new and different but there is nothing abstract about them. 447 U.S. at 309. Indeed, the contrast between *Chakrabarty* and the Federal Circuit's embrace of patents on business methods could not be more stark. *Chakrabarty* involved a new kind of technology that Congress admittedly could not have foreseen in 1952, a technology solidly rooted in the natural sciences, and a technology that requires large, high-risk investments. "Methods of doing business," by contrast, are not technology at all: they are not within the "useful arts" as interpreted by *In re Musgrave*, 431 F.2d 882, 893 (C.C.P.A. 1970). Methods of doing business were neither new nor unanticipated. They had existed unprotected by patents for hundreds of years when Congress enacted the 1952 Patent Act. *See, e.g.*, *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467, 469 (2d Cir. 1908); *Loew's Drive-In Theatres v. Park-In Theatres*, 174 F.2d 547, 552 (1st Cir. 1949) ("a system for the transaction of business . . . however novel, useful, or commercially successful is not patentable apart from the means

for making the system practically useful, or carrying it out"); *In re Patton*, 127 F.2d 324, 327 (C.C.P.A. 1942).[6]

If Congress intended to change the established rule in this regard, it was quite capable of doing so explicitly. Because the Patent Act was enacted against a backdrop of established judicial limitations on patentability, Section 101 demonstrates Congress's unwillingness to modify the scope of patentable patent subject matter. The Act's failure to reverse preexisting case law prohibiting business methods is conclusive.

3. *The Patent Act's Legislative History Fails to Support* State Street

Even assuming that Section 101 were ambiguous, legislative history cannot be read to narrow Section 101 unless that intent is "clearly expressed." *Reves v. Ernst & Young*, 507 U.S. 170, 177 (1993). As Judge Rich himself

---

[6] *State Street* purports to distinguish *Hotel Security Checking* and *Loew's Drive-In* on the basis that they refused patentability on the basis of inventiveness, but these distinctions are unavailing. Both cases establish that a business method constituted an unpatentable abstract idea. *Hotel Security Checking* did not dispose of the case on lack of novelty, as *State Street* suggests. *Id.* at 1373. Although the defense asserted in *Hotel Security Checking* was lack of novelty and invention, the court disposed of the claim for lack of "*patentable* novelty," *id.* at 472, because "[n]o mere abstraction, no idea, however brilliant, can be the subject of a patent irrespective of the means designed to give it effect." *Id.* at 469. In any event, as *State Street* concedes, *Patton* is unmistakably clear that "a system of transacting business, apart from the means for carrying out such system, is not within the purview of section 4886, *supra*, nor is an abstract idea or theory, regardless of its importance or the ingenuity with which it was conceived, apart from the means for carrying such idea or theory into effect, patentable subject matter." *Id.* at 327-28.

observed, "members of the Congress wrote only a few words of the Patent Act . . . The Patent Act was written basically, however, by patent lawyers drawn from the Patent Office, from industry, from private practice, and from some government departments." Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* reprinted in *Patent Procurement and Exploitation* 73 (BNA 1963). "A good 95% of the members of both bodies [of Congress] never knew that the legislation was under consideration, or that it had passed, let alone what it contained . . . How can the House, as a legislative body, be said to have any 'intent' with respect to the bill?" *Id.* at 75 (quoting Rep. Crumpacker). To then suggest that a report written by a Patent Office employee before the Act was passed reflects that intent offends common sense.[7]

Since the "anything under the sun" phrase is not even addressed to the scope of patentability, it cannot suggest that Congress intended to change the scope of patentable subject matter. In fact, there is not a word anywhere in the text or legislation to suggest that Congress intended to expand the reach of the patent system. In a colloquy on the floor of Senate, the act was represented to merely "codif[y] the present patent laws." 98 Cong. Rec. 9323 (1952). The statement inserted in the record by the sponsoring senator states it clearly in its opening line, "This legislation is another step in codification of the United

[7] "The foregoing will, it is hoped, cause you to pause and think when you hear or use the phrase 'intent of Congress.' Realistically, the 'intent,' with respect to the Patent Act of 1952, was the intent of a subcommittee to pass the bill prepared by the patent lawyers. . . . You need only compare the bill prepared by the Coordinating Committee with the law as enacted to see this." Rich, *supra*, at 77.

States Code and will enact into law title 35 of the United States." *Id.*

The absence of any such intent to expand patentable subject matter was clearly evident to Judge Rich when he wrote on the scope of patentability a mere eight years after the passage of the Act. Not only did he distinguish between patentable and unpatentable inventions, but his examples for the latter includes methods of doing business:

> Of course, not every kind of an invention can be patented. Invaluable though it may be to individuals, the public, and national defense, the invention of a more effective organization of the materials in, and the techniques of teaching a course in physics, chemistry or Russian is not a patentable invention . . . Also outside that group is one of the greatest inventions of our times, the diaper service.

Giles S. Rich, *Principles of Patentability*, 28 Geo. Wash. L. Rev. 393, 394 (1960). Under the expansive view of the patent system that *State Street* attributed to the Congress of 45 years before, these examples would be patentable.

B. "Useful, Concrete, and Tangible" Lacks Statutory Basis and Has Supplanted the "Transformation" Test.

Having justified its expansion of Section 101 with "anything under the sun," the Federal Circuit announced a standard that effectively supplants this Court's holding in *Cochrane*. *Compare State Street*, 149 F.3d at 1373, *with Cochrane*, 94 U.S. at 788. Rather than deferring to the *Cochrane* requirement of "transformation" in process

patents, the Federal Circuit cites new language from one of its own recent decisions, *In re Alappat*: "This is not a disembodied mathematical concept which may be characterized as an 'abstract idea,' but rather a specific machine to produce a useful, concrete, and tangible result." 33 F.3d 1526, 1544 (Fed. Cir. 1994). *Alappat* offers no definition of these terms. Four years later in *State Street*, the Federal Circuit elevated these terms as the new standard of patentability, again without definition.

Without explaining the fate of *Cochrane*, the Federal Circuit has introduced a standard that simply reiterates the Section 101 utility requirement and then introduces two altogether new and undefined terms, "concrete" and "tangible." It has yet to find any useful subject matter excluded by this standard.

II. REASSERTION OF THE *COCHRANE* STANDARD IS NECESSARY AS EXPANSION OF PATENTABLE SUBJECT MATTER HAS PROVED UNWORKABLE.

A. Expanding the Scope of Patentability Has Encouraged Opportunism Without Encouraging Innovation.

This Court fully understood the policy significance of extending patent protection into the realm of abstract subject matter when it first examined computer programs. The concluding paragraphs in *Benson* recognize the economic significance of the problem and the very limited capacity of courts to address it:

> It may be that the patent laws should be extended to cover these programs, a policy matter to which we are not competent to speak. . . . If

> these programs are to be patentable, considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by the Congress is needed.

Benson, 409 U.S. at 72-73. *Compare with Diehr*, 450 U.S. at 184-87 (concluding, after extended consideration, that subject matter does not become nonstatutory merely due to usage of a computer). The measured analysis that this Court has required before expanding the scope of patentable subject matter is absent from *State Street*.

By removing widely understood barriers to patentable subject matter, *State Street* validated the concerns voiced in *Benson*, and proved a case study in the dangers of creating new rights overnight. The extraordinary breadth offered by patents on business methods sparked an instant land rush.[6] Ironically, this was fueled by the extraordinary success of the *nonproprietary* platforms of the Internet and the World Wide Web, upon which anyone could build freely. Entrepreneurs scrambled to patent the first Internet-based implementation of known processes, such as reverse auctions, because the Federal Circuit's low nonobviousness standard for combinations of known art made

---

[6] So serious was the problem of questionable "Electronic Commerce" patents (Class 705) that the PTO launched a special initiative in order to reduce the allowance rate from a staggering 75 percent. *See* David Streitfeld, *Note: This Headline is Patented*, L.A. Times, Feb. 7, 2003, at A1.

such patents easy to get. *See* U.S. Patent No. 5,794,207 (issued Aug. 11, 1998) (reverse auctions on the Internet).[9]

This deadly combination along with other Federal Circuit rulings that have raised the presumption of validity and made injunctive relief automatic have fueled an economic and institutional addiction to a high volume of patenting. When the Federal Circuit decided *State Street*, no one was advocating patents on business methods. *State Street* created an instant constituency for such patents, not only among those rushing to secure them, but also among the community of patent professionals, who stood to benefit greatly from the expanded business. *State Street* helped create a sellers' market for patent-related legal services, in which professional fees rose approximately 50% over the four years from 1999 to 2003.[10] Once this highly motivated constituency was created, it proved too difficult for Congress to undertake the arduous task of undoing the Federal Circuit's errors.

Unlike patents for technologies, the broad, sweeping nature of many business method patents, such as the infamous one-click ordering patent, drew hordes of would-be monopolists. The Undersecretary for Intellectual Property and Director of the Patent and Trademark Office even expressed support for patents on novel and nonobviousness legal arguments.[11] However, such patents also

---

[9] The problems created by questionable combination patents is presented to this Court in the petition in *KSR International v. Teleflex, Inc.*, 04-1350.

[10] AIPLA, Report of the Economic Survey 1999, 2001, and 2003.

[11] Steven Pizzo, *Who's Really Being Protected?* O'Reilly Network, May 24, 2000, at 3, *available at* <http://www.oreillynet.com/pub/a/policy/2000/05/24/PizzoFiles.html>.

drew unprecedented public attention and often condemnation, in part because their nontechnical nature made them easy for the public to grasp.[12] Ironically, patents at this level of abstraction actually discourage technological innovation by preempting competition among different implementations. As IBM observed:

> [W]ith the advent of business method patenting it is possible to obtain exclusive rights over a general business model, which can include ALL solutions to a business problem, simply by articulating the problem. No investment in research and development needed to create an actual, practical, workable solution to the problem is required.[13]

Yet rather than acknowledge the problems associated with granting nontraditional patents on intangible subject matter, the patent community has cast the particular problems as failures of the examination process, the answer to which is not to cut back on subject matter but to provide greater resources to the agency.

---

[12] *See* U.S. Patent No. 5,960,411 (issued Sept. 28, 1999) (one-click); U.S. Patent No. 6,329,919 (issued Dec. 11, 2001) (system for toilet reservations); *see also* James Gleick, *Patently Absurd*, N.Y. Times Mag., Mar. 12, 2000 (criticizing similar patents).

[13] IBM response to Request for Comments on the International Effort to Harmonize the Substantive Requirements of Patent Law, 66 Fed. Reg. 15,409 (Mar. 19, 2001) *available at* http://www.uspto.gov/web/offices/dcom/olia/harmonization/TAB42.pdf

B. Governments Worldwide Have Struggled to Address the Expanding Scope of Patentability.

The controversy surrounding *State Street* continues to reverberate, fueled by new techniques and strategies to "extract value" from patents. Many of the patents secured by startups during the Internet boom have been bought from their failed owners by companies who are in the business of asserting patents against producers and users of information technology. These "trolls" benefit from the fact that the Federal Circuit has made patents easy to get, easy to assert, more potent, and available without limitation at all levels of granularity and functionality.

The Federal Trade Commission (FTC) and the Department of Justice held a long series of hearings on patents in 2002. The FTC's report, issued in October 2003, demonstrates how differently patents are used and experienced within different sectors of the economy. *See* Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) (hereinafter "FTC Report"). While many problems were common throughout the information technology sector, the "software and Internet" sector (the areas where the subject matter is most abstract) seemed clearly the worst off. The report summarizes the views of the hearing participants:

> Although some panelists stated that software and business method patents foster innovation, many disagreed, asserting that such patents are often questionable and are actually stifling innovation by increasing entry barriers and creating pervasive uncertainty.

FTC Report, ch. 3, at 44.

Testimony from the information technology sector showed how opaque and dysfunctional the system had become, largely as a result of lowered standards and increased incentives to manipulate the system. According to participants, independent invention and inadvertent infringement occurred frequently, reasoned investigation of the patent landscape was burdened by costs and risks, and judicially enhanced incentives invited use of patents not for protection but for extortion. These views contrast dramatically with the sanguine convictions commonly expressed by the patent bar and patent organizations. To be sure, there are winners amidst the chaos, and professional and institutional intermediaries stand to gain from increased levels of activity in all events. It is also true that some of the problems of too many patents are alleviated by practices such as cross-licensing and patent pools, but these responses have effects of their own that are even further removed from the traditional framework of patent jurisprudence.

The Solicitor General's brief opposing certiorari warns of the impact of this case on business expectations: "A decision overturning PTO's approach could call into question a substantial number of patent claims and undermine the settled expectations of numerous participants in technology-based industries." U.S. Br. Opp. Cert. at 14. However, the PTO's approach reflects the jurisprudence of the Federal Circuit, which is directly responsible for the high level of patent-related uncertainty in the information technology sector today. *See* FTC Report, ch. 3, at 14. The FTC repeatedly uses the term "questionable patents" to characterize the problem of uncertainty that pervades the patent system, albeit more so in some sectors than in others. *Id.*

The Solicitor General appears to take into account only the interests of those that own patents, questionable or not. This frames the problem too narrowly since technology producers and users also have an interest in being relieved of unwarranted patent claims. By contrast, the FTC analysis looks at all sides and recommends that policymakers "consider possible harm to competition – along with other possible benefits and costs – before extending the scope of patentable subject matter." FTC Report, Exec. Summ. at 14 (Recommendation 6).

The FTC study is a landmark in that it provides a preliminary understanding of the tradeoffs in patent protection – i.e., how the costs, benefits, risks, and incentives play out under different conditions and circumstances. The case for patents, like the case for antitrust laws, ultimately depends on economic value. The FTC study makes clear that there are major costs in the patent system well beyond the classic costs of monopoly, and that the information technology sector bears more than its share. The burdens include poorly delineated patents, diffuse and ephemeral prior art, an overabundance of information of uncertain value, unavoidable risk of inadvertent infringement, and prohibitive transactions costs. Much of this can be traced to Federal Circuit decisions that have made patents easier to get, easier to assert, more potent, and available without subject matter limitations.

Overseas, the response to the virtually unlimited scope of patentability in the United States has been conspicuously negative. Consultations held by the European Commission and United Kingdom Patent Office in

2000 found that the great majority strongly disfavored business method patents.[14] Given the general parity in commitment to intellectual property protection between the United States and Europe, it is revealing that (in the absence of a judicially created constituency for business method patents) an open political process decisively rejected them. Despite this clear sentiment against business method patents in Europe, the U.S. Government and U.S.-based patent organizations pressed aggressively for patents in all fields of activity, not just technologies. In 2002, the U.S. delegation threatened to walk out of WIPO negotiations for a new substantive patent law treaty (SPLT) if its demand for recognizing business methods was not accepted as "best practice." However, the delegation found no support for this position other than the patent organizations present as observers.[15]

CONCLUSION

The division between free competition and state-sponsored monopoly is one of the great economic problems of our age. The pervasiveness of Internet-enabled enterprise and personal empowerment means that the scope of patentable subject matter affects not only competition between competitors, but the extent to which users of

[14] *See* Consultation Documents of the European Commission (available at http://europa.eu.int/comm/internal_market/en/indprop/comp/softpatanalyse.htm); Consultation Conclusion of the Patent Office of the United Kingdom (available at http://www.patent.gov.uk/about/consultations/conclusions.htm).

[15] World Intell. Prop. Org., *Report of the Seventh Session of the Standing Committee on the Law of Patents* ¶¶ 159-173 (2002), *available at* http://www.wipo.org/scp/en/documents/session_7/pdf/scp7_8.pdf

technology – including individuals, small businesses, and nonprofit organizations – can participate directly in the global agora. This participation is threatened by a U.S. patent system that, driven by self-interested economic and institutional forces, has been transplanted into subject matter beyond its established competence, where a need was never politically expressed and where the system now operates to foment uncertainty and inhibit innovation.

The fruits of this transplantation are bitter, undermining the credibility of our intellectual property laws and breeding contempt for the rule of law in a system dependent largely upon voluntary compliance. To jettison the spurious notion that patent law knows no bounds by enforcing the subject matter limitations of Section 101 of the Patent Act would help repair this damage and restore the credibility of the patent system.

For the reasons set forth above, CCIA respectfully requests that the Court reverse the Federal Circuit.

Respectfully submitted,

BRIAN KAHIN
MATTHEW SCHRUERS
COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION
666 Eleventh Street, NW
Washington, DC 20001
(202) 783-0070

JONATHAN BAND
Counsel of Record
JONATHAN BAND PLLC
21 Dupont Circle NW
8th Floor
Washington, DC 20036
(202) 296-5675
jband@policybandwidth.com

Counsel for Amicus Curiae

Dated: December 23, 2005